



Legislative Research Council

SouthDakota

MINUTES

GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

Representative Dan Dryden, Chair
Senator Larry Tidemann, Vice Chair

Fourth Meeting
2015 Interim
September 22, 2015

Room 412
State Capitol Building
Pierre, South Dakota

The fourth meeting of the 2015 Interim Government Operations and Audit Committee (Committee) was called to order by Chair Dryden at 9:00 a.m., September 22, 2015, in LRC Room 412, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Representatives Dryden, Hunt, Hunhoff, and Bartling. Senators Heineman and Tidemann. Senators Peters, Novstrup, and Sutton joined by conference call. Representative Cronin joined the meeting shortly after roll call.

Staff members present were Mr. Martin Guindon, Auditor General; Mr. Bob Christianson and Mr. Tim Flannery, State Government Audit Managers for the Department of Legislative Audit (DLA).

NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. The bulleted items below each agenda item are documents sent out by the Committee.

Approval of Minutes and Agenda

Representative Hunt moved, seconded by Representative Bartling, the minutes of the August 25, 2015 meeting be approved ([Minutes 8-25-2015 Meeting Doc.1](#)). Motion prevailed unanimously on a voice vote.

Item 1 – Department of Transportation and Department of Revenue provided an update on the collection and use of additional taxes and fees raised by Senate Bill 1, 2015 Session

- [Letter to DOT Doc. 2](#)
- [Letter to Revenue Doc. 3](#)

Secretary Andrew Gerlach, Department of Revenue (DOR), provided an overview of the taxes and fees raised by Senate Bill 1, 2015 Session. He provided the Committee a handout to help illustrate the revenue impacts of Senate Bill 1. (See [Revenue Handout Doc. 7](#)). Secretary Gerlach stated that the five key elements of the Legislation included:

1. An increase in motor vehicle excise tax from 3% to 4%, effective April 1, 2015.
2. Fees for noncommercial passenger vehicles increased by 20%, effective April 1, 2015.
3. Wheel tax increased to a maximum of \$5 per vehicle not to exceed a total of \$60 per vehicle, effective April 1, 2015.
4. Motor fuel excise tax increased by \$.06; from \$.22 per gallon to \$.28 per gallon of gasoline and clear diesel fuel, from \$.08 per gallon to \$.14 per gallon for ethyl alcohol and methyl alcohol, effective April 1, 2015.
5. Fees for noncommercial vehicles over 20,000 pounds increased from 60% to 70% of commercial rates, effective July 1, 2015.

Secretary Gerlach stated that the additional 1% for motor vehicle excise tax, which is based upon the purchase price of the vehicle, has raised \$7,929,236 more tax for the time period from April 1, 2015 to August 31, 2015. In addition to the 1% tax increase, Secretary Gerlach stated that revenue is impacted by the price of vehicles and the number of vehicles purchased. He added that this tax is collected by the respective County Treasurer Offices and is revenue to the State Highway Fund.

Secretary Gerlach then described the revenue trends, since the passage of Senate Bill 1, relating to motor vehicle registration fees. He stated that there was a significant increase in revenue in March 2015, prior to the April 1, 2015 effective date of Senate Bill 1, from people renewing before the fee increase. He added that a person can renew up to 90 days prior to their respective renewal dates. He concluded that a more normal revenue trend occurred in June and July 2015 (the latest revenue figures available). Senator Tidemann asked for a breakdown of motor vehicle registration fees between the state, counties, and townships. Secretary Gerlach stated that he would provide this information to the Committee as follow-up information.

Secretary Gerlach explained the increased wheel tax from \$4 to \$5 per vehicle wheel. He noted that this is an elective option that counties can adopt by county resolution. There are currently 53 counties charging wheel tax and 13 counties with no wheel tax. He concluded that this revenue is used for the maintenance of the county roads and bridges.

Secretary Gerlach explained the \$.06 per gallon tax increase for the various types of motor fuel:

- Gasoline – increase from \$.22 to \$.28
- Diesel (clear) – increase from \$.22 to \$.28
- Ethyl and methyl alcohol – increase from \$.08 to \$.14

He stated that this revenue is dedicated to the State Highway Fund and that the increase has resulted in \$11.9 million more dollars generated since April 1, 2015. He stated that the tax increase does not appear to have had an effect on the miles driven.

Secretary Darin Bergquist, Department of Transportation (DOT), added that the DOT tracks the number of miles driven and the DOR tracks the quantity of fuel purchased. He explained that the trend, for miles driven in South Dakota, is relatively consistent from year to year. The price of fuel has little impact on the amount of travel in the state.

Secretary Bergquist explained two components of Senate Bill 1 that have impacted the DOT. The first is the creation of the Big Fund or the Local Bridge Improvement Grant Fund. The second component is the ongoing and future construction program. He stated that the counties collect the vehicle registration fees and keep 41.75% and the remainder is sent to the DOR. DOR transfers \$7 million to the Local Bridge Improvement Grant Fund and the remainder goes to the counties based on a statutory formula. In addition to the \$7 million, Secretary Bergquist stated that the Transportation Commission has pledged \$2 million from the State Highway Fund and \$6 million from Federal funds, for a total of \$15 million per year, to the Local Bridge Improvement Grant Fund. He added that as the bridge projects, which are currently in the State Transportation Improvement Plan, are completed; the \$6 million from Federal funds will then be used for state highway projects. In approximately four years, the \$15 million designated for annual bridge projects will be funded by \$7 million from vehicle registration fees and \$8 million from the State Highway Fund. Senator Heineman asked about the funding to the counties and who is responsible for the various bridge projects. Secretary Bergquist stated that all of the vehicle registration fees end up with the counties.

Secretary Bergquist explained the Legislature's Rules Review Committee has approved the administrative rules for the Local Bridge Improvement Grant program. He added that the responsibility for awarding grants is with the Transportation Commission. For counties to be eligible for a grant they must have a highway plan in place and have adopted a wheel tax. He explained that grants will be awarded for preliminary engineering work, bridge reconstruction and replacement, and bridge maintenance. Secretary Bergquist stated there were over 4,000 local bridges in the state, of which 240

are under the jurisdiction of cities. Cities can also apply for a grant. Representative Dryden asked if there will be a local matching requirement with respect to grants from this fund. Secretary Bergquist stated that there will be a matching requirement and the minimum local matching percentage will be 20%, which is the same as the current federally funded bridge projects.

Senator Tidemann asked what has been done with the additional resources provided by Senate Bill 1. Secretary Bergquist stated that the additional funding began coming in June and July 2015, which was too late to impact the 2015 construction season. The Transportation Commission has planned for the use of the additional funds in the recently approved State Transportation Improvement Plan. He concluded that, if the federal dollars are made available, there will be more construction projects taking place next year.

Representative Cronin asked of the reduction in the price of oil has translated to lower project construction costs. Secretary Bergquist stated that it has not resulted in lower bids being received. He added that many of the larger urban projects are coming in over the engineers estimate for these types of projects. Senator Tidemann asked for a status report on federal funding. Secretary Bergquist stated that Congress has extended funding under the old program through October 2015. He added that the Senate has approved the six year "Drive Act", however, the House has not taken any action and he does not anticipate a new federal transportation program by the end of October 2015.

Senator Heineman asked what the goals where in Senate Bill 1 and if they are being reached. Secretary Bergquist stated that there were two overarching goals: 1) to improve the state highway system health index, and 2) to improve local bridges over a 10 to 20 year time period. He added that the second goal was the reason for the creation of the Local Bridge Improvement Grant Fund.

Secretary Bergquist provided the Committee a handout (see [DOT Handout Doc. 8](#)) at the conclusion of his presentation.

Item 2 – Department of Social Services provided an update on the Medicaid management information system project

- [Letter to DSS Doc. 4](#)

Secretary Lynne Valenti and Deputy Secretary Brenda Tidball-Zeltinger, Department of Social Services (DSS) provided a status report (see [DSS Handout Doc. 9](#)) on the new Medicaid Management Information System (MMIS) project. Secretary Valenti explained each of four phases associated with the project and the anticipated timeline for completion of each phase. She explained phases one and two involve provider enrollment and credentialing, pharmacy point of sales, and data analytics. She stated that the timeline for completion of phases one and two is October 2015 to September 2016. She explained phases three and four involve core claims processing, data warehousing, and the web portal. She stated the completion date for phases three and four is yet to be determined. Secretary Valenti stated that an outline of the Department's go forward plan has been submitted to the Centers for Medicare and Medicaid Services (CMS). Senator Tidemann asked when she anticipated hearing back from CMS. Secretary Valenti stated that she was hoping to hear back from CMS in December 2015. Senators Peters and Tidemann asked about the involvement of the Bureau of Information and Telecommunications (BIT) on the MMIS project and whether or not all requested full-time equivalent positions had been filled. Secretary Valenti stated that BIT is actively involved in the go forward plan; however, she was unaware of the number of open BIT FTE positions associated with the MMIS project. Representative Hunhoff asked who was on the leadership team handling this project. Secretary Valenti stated that the BIT Development group and staff from the DSS Medical Services Division formed the MMIS system leadership team.

Senator Heineman asked what the goals were for each new module DSS has described and what improvements can be anticipated from the new MMIS system. Deputy Secretary Tidball-Zeltinger started by explaining the provider enrollment module. She stated that a primary goal was to end the

use of paper and to have all providers on the system electronically. She added that DSS is approximately 90% completed with this module. What remains unfinished is the ability for DSS to automatically validate each provider's medical license. Secretary Tidball-Zeltinger explained that the process to automate pharmacy claims has substantial work remaining. She added that the goal for pharmacy claims, as well as other claims, is to allow providers to see the status of their claims on a more real-time basis. Secretary Tidball-Zeltinger explained that DSS is looking at market options for data warehouse and analytic products that will best suit South Dakota and hope to make some decisions in the next few months for these modules.

Representative Hunhoff asked if the reason for the slow progress was the result of turnover in the BIT staff. Secretary Valenti stated that there has been some turnover; however, the core team has been consistently in place. She added that progress has been slow because of federal regulatory changes, changes in the information technology market, and the complicated nature of the MMIS project. Secretary Valenti stated that DSS is talking to other states and completing proper due diligence to ensure South Dakota finds the best solutions.

Representative Hunt asked if the contract with Catamaran had provisions in place that addressed mergers or buy-outs and if Catamaran should be held responsible for delays in progress. Deputy Secretary Tidball-Zeltinger stated that Catamaran was a subcontractor under the prime contract with CNSI and DSS's issues were with CNSI. Those issues have been resolved. She added that Optum Solutions, the company that acquired Catamaran, has agreed to honor the terms of the original contract.

Senator Peters asked that the Committee be provided an historical timeline of events associated with the MMIS project. Secretary Valenti agreed to prepare this information.

Senator Tidemann asked that the Committee be informed of whom is in-charge of each phase going forward and the dollars associated with each phase. Secretary Valenti stated that DSS will have details relating to each phase of the project and would be able to report this information to the Committee in the future.

Representative Cronin stated that he has seen timelines before and asked how confident DSS was with the new timeline presented to the Committee. Secretary Valenti stated that she is optimistic about the phases and modules presented to the Committee. She stated that based on lessons learned, this new modular approach coupled with the marketplace available today should result in better outcomes for South Dakota. Representative Cronin offered Secretary Valenti Legislative assistance to help with the go forward plan, if needed.

Item 3 – Bureau of Administration provided an update on the insurance programs called for in House Bills 1185, 1186, and 1187, 2015 Session

- [Letter to BOA Doc.5](#)

Timothy Engel, attorney for May, Adam, Gerdes, and Thompson LLP, was present to provide the Committee an update on the progress made to establish two captive insurance companies. Mr. Engel stated that the actuarial work and the reinsurance work have been completed for both captive insurance companies. He stated that the captive insurance company that provides insurance coverage for the various Authorities is up and running and began providing this coverage on September 1, 2015. He added that the captive insurance company that will provide insurance coverage for State buildings will be ready to provide this coverage on October 1, 2015.

Representative Cronin asked what the deductibles are with respect to the insurance coverage. Craig Ambach, Executive Director of the Office of Risk Management (ORM), stated that from April 2015 to October 2015, the state had purchased coverage with a deductible of \$100,000 for wind and hail damage and \$50,000 for other perils. He added that under the captive insurance company coverage, the deductible

will be \$50,000 for all perils. He went on to explain that the agency would be responsible of the first \$50,000 of the claim, the next \$450,000 would be paid by the captive insurance company, and anything over \$500,000 would be paid by the reinsurance carrier up to a replacement cost maximum amount of \$700 million per occurrence.

Representative Cronin asked if the state has verified that all property is being included for coverage. Director Ambach stated that state property valued at \$100,000 or more is on the list of properties covered by insurance. Representative Cronin asked if all agencies know that properties must be reported to the ORM. Director Ambach stated that they do and the ORM has developed a form that the Office of the State Engineer completes as new buildings are constructed to ensure that they are included on the ORM property list and covered by insurance. Representative Cronin asked if the maximum loss per occurrence amount of \$700 million will trend up over time. Director Ambach stated that this figure will be adjusted for inflation each year using a cost index.

Senator Peters asked if replacement value truly meant new cost construction value or some number less than that. Director Ambach stated that replacement costs means the total new cost to replace a building and that is why, for underwriting purposes, it is important to properly value the buildings to begin with. Representative Cronin asked if the contents of a building were also covered. Director Ambach stated that contents are not covered at this time, but they are looking into this type of coverage. Representative Hunt asked if there were income replacement provisions in the coverages. Director Ambach stated that, working with the underwriters, they have incorporated an \$80 million business income loss amount into the policy. He added that agencies will need to demonstrate the financial loss element of a claim. He also stated that the coverages include \$5 million to upgrade properties to current building codes and \$3 million for debris removal.

Senator Tidemann asked what the cost per \$100 of property value is under the new captive insurance company. Director Ambach stated that the actuaries have recommended \$.048 per \$100 value. Representative Dryden commented that it is important that each agency properly values their respective buildings so that each agency is paying their fair share of the premiums.

Item 4 – Bureau of Administration provided an update on the new Obligation Recovery Center

- [Letter to BOA Doc.5](#)

Acting Commissioner Jeff Holden, Bureau of Administration, provided the Committee an update on the new Obligation Recovery Center (ORC). Commissioner Holden stated that they are still in active competitive solicitation for an ORC contract manager and as a result can only provide general information on the process. He stated that a request for proposal went out and multiple bids were received through August 3, 2015. He added that the Obligation Team, made up of various agencies, reviewed the proposals. The team has since made recommendations to the Legislative Advisory Group. Commissioner Holden stated that once he hears back from the Legislative Advisory Group, he will contact the highest ranking company and begin negotiations. Commissioner Holden hopes to execute a contract sometime in October 2015. Senator Tidemann and Representative Hunt asked the Commissioner Holden provide the list of companies bidding for this contract when it is appropriate for this information to be made public. Commissioner Holden agreed to provide this information to the Committee after a contract is signed.

Representative Bartling asked who the members of the Advisory Group are. Commissioner Holden stated that he, Commissioner Dilges, Representatives Partridge, Gibson, Senator Haverly, and Jim Hood comprised the group.

Representative Hunhoff asked when the ORC would be on-line. Commissioner Holden stated that they will be implementing the plan on an agency by agency basis and hoped to have at least one agency on-board by the 2016 Legislative session.

Item 5 – Committee discussion of Other Funds

Mr. Robert Christianson, Department of Legislative Audit, provided an overview of what kinds of reports are included in the GOAC Blue Book. Mr. Christianson provided the Committee a handout (see [Other Funds Doc. 6](#)) of funds which had a change to equity of \$500,000. From this list the Committee selected the following funds for review at the next meeting:

- Law Enforcement Officers Training Fund
- 911 Telecommunicator Training Fund
- Court Automation Fund
- School and Public Lands Human Services Fund
- Board of Massage Therapists Fund
- Petroleum Release Compensation Fund

Item 6 – Committee discussion of future topics and the next meeting date

The Committee discussed future topics and selected October 30, 2015 as the next meeting date. Senator Heineman moved to adjourn the meeting at 3:30 p.m., seconded by Senator Tidemann, and carried by a voice vote.

This meeting is being held in a physically accessible location. Any individual needing assistance, pursuant to the Americans with Disabilities Act, should contact the Legislative Research Council (605-773-3251) in advance of the meeting to make further arrangements.

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